

UBS Luxury Property Focus 2020

Real estate markets

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- Like last year, Coligny sports Switzerland's most expensive properties. In the mountain regions, the highest prices can be found in the traditional tourist areas of Gstaad and St. Moritz.
- The era of big price increases in the luxury real estate segment is over. Buyers are holding back due to economic uncertainty and sellers are exercising patience.
- The coronavirus crisis will have longer-term effects on Swiss luxury real estate. Switzerland as a location should benefit from the economic weakness elsewhere. Rural locations are likely to become more attractive compared to inner city sites.



Source: gettyimages

When stock markets collapsed worldwide in 1929 and the real economy shrank dramatically, real estate prices followed suit. Prices in the luxury segment were particularly strongly synchronized with the economic downturn, as a study of the Manhattan housing market in New York shows. Luxury apartments lost about half of their value within a short time. This is because unlike the demand for everyday consumer goods, the demand for luxury goods is strongly linked to the growth in income and wealth of the richest households. The incomes of the richest one percent of the population fell dramatically during the Great Depression of the 1930s. The current, coronavirus-driven recession will also leave its mark.

In a downturn

The effects of the pandemic are slowly becoming apparent. In 2020 to date, a clear slowdown is evident compared to last year. In 2019, the transaction prices of luxury properties climbed by almost six percent, the highest rate since 2013. In the first five months of the current year, prices rose by an annualized 1.7 percent. On the whole, the luxury segment

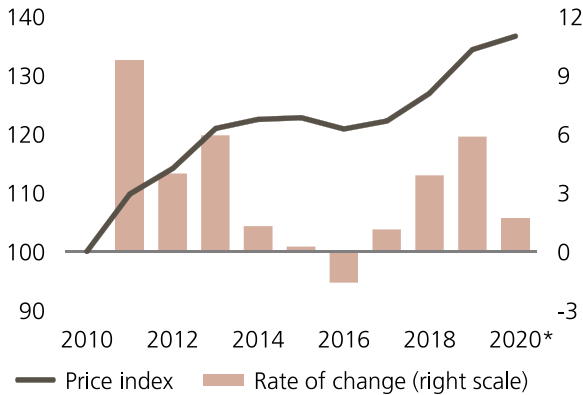
fared less well than the overall market average, with prices in the first quarter of 2020 rising by three percent year-on-year.

The number of transactions also reached a new high in 2019. In the luxury markets we analyzed, four times as many properties changed hands as in 2015, but the spending spree now appears to be over. The lack of opportunity for viewings as well as restrictions placed at notary and land registry offices made buying a property more difficult. For example, the number of transactions in the luxury segment is likely to have fallen by an annualized 15 percent by the end of May this year compared to 2019, even though the lockdown only lasted for about half of this period. Luxury second homes were hit especially hard, a segment in which foreign demand has virtually come to a standstill due to the closure of internal borders.

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Significant cooling

Transaction prices in the luxury segment, index 2010 = 100 and rate of change, in %



Source: UBS * January-May 2020, annualized

Explanation for figure: Price trends in the real estate market are normally estimated by analyzing comparable properties. In the luxury segment, however, no two properties are alike. In addition, relatively few transactions occur each year. A price index based on this kind of data would measure not just the actual price trends, but also the differences between the characteristics of the properties sold in the various years. This problem can be avoided by comparing transaction prices for luxury properties that have changed hands several times. Their characteristics should stay relatively stable over time.

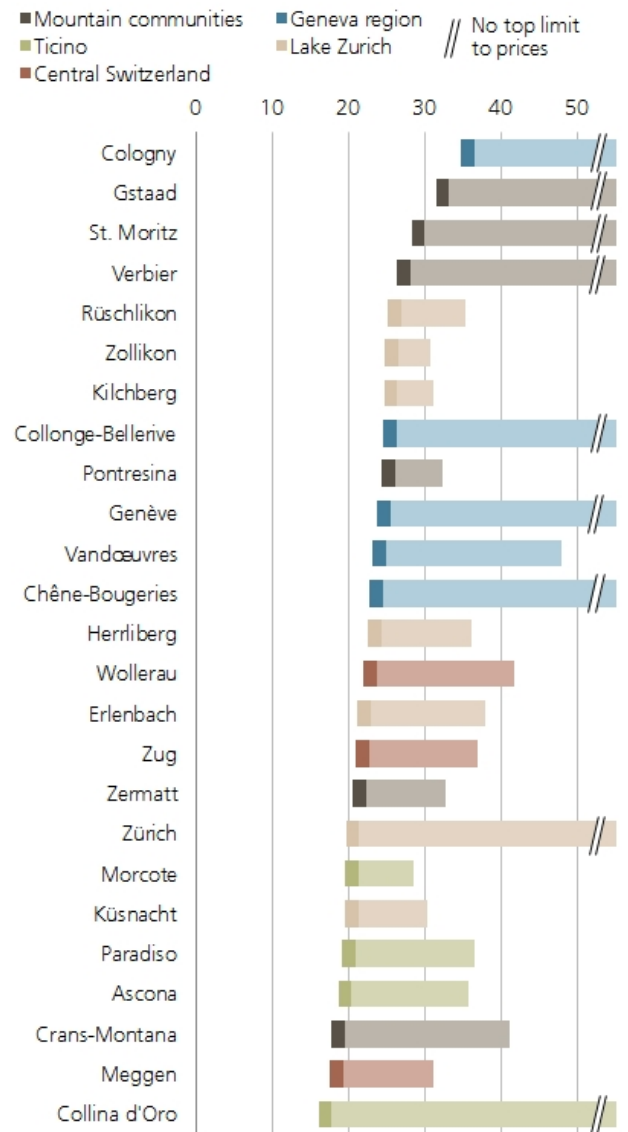
Cologny ahead of Gstaad and St. Moritz

As was the case last year, Cologny sports Switzerland's most expensive properties, where prices in the luxury segment exceed CHF 35,000 per square meter. This means that a villa with 300 square meters of living space costs over 10 million Swiss francs. For luxurious homes on Lake Zurich, the highest prices are charged in Rüslikon and in Zurich's neighboring communities of Zollikon and Kilchberg, at around CHF 25,000 per square meter. Prices in Central Switzerland are lower, starting at just under CHF 18,000 per square meter.

The traditional tourist communities of Gstaad and St. Moritz are top-ranked on the second home markets, with luxury real estate changing hands at prices exceeding CHF 28,000 per square meter. The lowest prices per square meter can be found in Ticino, where starting prices in the luxury segment are below the CHF 20,000 threshold in all municipalities.

Luxury has its price

Advertised prices in the luxury segment in selected municipalities; 95th quantile (highlighted in darker color) up to top asking prices, average 2017 to 2020, in CHF thousand/square meter



Sources: FPRE, UBS

Outlook

Entrepreneurs account for a large share of the demand for luxury real estate, so economic growth plays a significant role in this segment. According to our forecast, Switzerland's economic output is likely to contract by 5.5 percent in the current year. However, with growth forecast at 4.4 percent in 2021, some of this contraction will likely be clawed back next year. The expected upturn should not hide the fact that the coronavirus crisis will continue to be reflected in company values for some time to come. Some 125,000 enterprises, more than one in five, applied for a bridging loan, thus increasing their indebtedness for several years. The outlook for industry remains fragile.

Fewer transactions at lower prices

In a weak economic environment, the willingness to pay for luxury real estate declines. Uncertainty about future economic developments makes potential buyers more cautious, and they tend to hold off buying properties. That's what we are seeing now. The more expensive and unusual the property, the more reluctant prospective purchasers are likely to be. Sellers of luxury real estate can currently exercise patience in the face of historically low interest rates and thus low opportunity costs, but those who are under time pressure must expect price markdowns. Until price expectations have adjusted to the reality of the lower willingness to pay, the liquidity of luxury real estate will continue to decline.

Regions that were already characterized by an oversupply of high-priced properties in the past are particularly hard hit. This was the case in Ticino due to the construction boom we have seen over the recent past. We estimate that about one in every 12 luxury properties in Ticino is currently on the market. The canton was also severely affected by the coronavirus crisis, so there is little prospect of demand recovering any time soon. Accordingly, the recession is likely to lead to stronger downward pressure on local prices than the Swiss average. This is also true of some specific second home communities such as Crans-Montana. The situation is better in the luxury locations around Lake Zurich and in Central Switzerland. In relative terms, the market in these areas had dried up before the lockdown, which is why significant price corrections are unlikely if the economy recovers quickly.

Swiss luxury market benefits from weakness abroad

The coronavirus pandemic is reshuffling the cards in the competition between destinations in the global luxury real estate markets. In many European countries, debt will increase significantly this year. Given the existing debt

burden, this increases the risks for the Eurozone. The prospect of (even) higher taxes and an uncertain long-term economic outlook will reduce the attractiveness of luxury real estate in France and Italy. Swiss luxury locations, on the other hand, benefit in this respect thanks to the strong fiscal position and long-term appreciation of the Swiss franc. This probably applies above all to the international Lake Geneva region and second home markets, where demand for luxury real estate is likely to rise slightly in the medium term.

Urban locations less appealing

But in Switzerland, too, higher government debt will be the longer-term legacy of the coronavirus crisis. As a criterion for the choice of location, the state of local public finances as an indicator of future tax increases is likely to be increasingly decisive. In Switzerland, the cantons of Schwyz and Zug are in a very good fiscal position according to the *UBS Cantonal Competitiveness Indicator*, and the starting position in the canton of Zurich is also solid. Geneva, on the other hand, is the canton with the weakest public finances and has less scope for further expenditure due to its high level of debt. The big cities in particular will probably be judged more critically in future from the point of view of the tax burden.

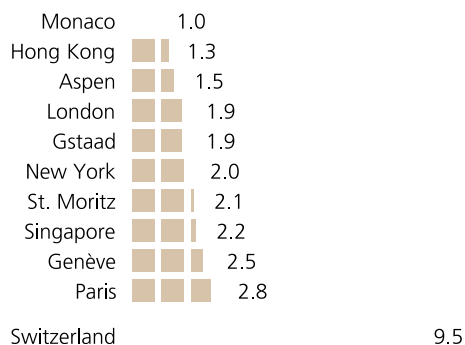
But the hip city loft is also losing its appeal in other ways. The lockdown experience gave the motto of "escaping to the countryside" a new lease of life given the stress of living in densely populated cities. Although it is too early to proclaim a major de-urbanization wave in the luxury market, low residential density is likely to become a more prominent purchasing criterion in the future. First-class sites in previously secondary, more rural locations will benefit from this.

Global luxury market

According to Knight Frank, Monaco and Hong Kong lead the way in terms of the most expensive places for luxury properties in the world in 2019, as they were in 2018. Square meter prices are around USD 63,000 in Monaco and USD 48,000 in Hong Kong. In London and New York, the prices of luxury real estate are above the USD 30,000 mark. Prices in the Swiss cities of Geneva and Zurich are lower than in other world metropolises, at around USD 25,000 and USD 20,000 per square meter respectively. Gstaad, Switzerland's most expensive second-home market, is also less expensive than the US ski resort of Aspen, where prices come in at around USD 41,000.

How much living space can you get for USD 63,000?

Living space in square meters that can be purchased for USD 63,000 in the luxury segment in selected cities; Swiss average of all owner-occupied homes for comparison



Sources: FPRE, Knight Frank, Zillow, UBS

Ongoing economic and geopolitical uncertainties will keep interest in tangible assets such as real estate high. According to Knight Frank, in 2019 the global luxury real estate markets recorded an average price increase of almost two percent, even though the global real estate cycle was already well advanced.

However, as in Switzerland, lockdowns have led to a significant decline in transactions this year, which is why price corrections must also be expected in global luxury markets. That said, these should be less severe than was feared until recently, as wealthy households continue to enjoy good access to debt financing and have large amounts of cash. Fears of higher taxes and fees are likely to further fuel global competition among locations and increasingly concentrate demand on places where the general environment is comparatively good.

Luxury locations in Switzerland

In our analysis, we restrict ourselves to 25 Swiss municipalities in six regions (Lake Zurich, Central Switzerland, Lake Geneva, Oberengadin, Bernese and Valais Alps, and Ticino) that are viewed as luxury locations. Then, we examine the most expensive 5 percent of advertised real estate in terms of square meter price. The summary table (see page 6) is organized by region and then by price within each region. It is not a complete list of properties. Luxury real estate is peppered throughout other Swiss municipalities; a single neighborhood can be very upmarket even if the label doesn't apply to the entire town.

Market characteristics: luxury proportion

Market size depends on the stock of luxury real estate in each municipality. While all the municipalities in this study have a high proportion of high-priced real estate, the actual proportion varies significantly from one municipality to the next. For that reason, market size is defined as the portion of advertised properties in each municipality that have square meter prices above CHF 20,000.

Prices above this threshold are most common in Cologny on Lake Geneva, where they make up more than 20 percent of the market. The mountain towns of St. Moritz, Verbier and Gstaad also put in an impressive showing at 12 to 17 percent. Geneva, however, had the largest absolute number of high-priced properties.

Cost environment: tax burden and lump-sum taxation

Personal taxes affect disposable household income and vary from one municipality and canton to the next. Wollerau and Zug, for example, have among the lowest municipal and cantonal personal tax rates for ultra-high earners. German-speaking Switzerland tends to have lower taxes than Ticino and French-speaking Switzerland. While Zurich and Geneva have a relatively high level of taxation, other luxury locations on Lake Zurich and Lake Geneva boast some of the lowest tax burdens in their cantons.

The availability of lump-sum taxes often plays a role for wealthy foreign residents of Switzerland. This type of tax is levied by all the cantons except Zurich, the two Basel cantons, Schaffhausen and Appenzell Ausserrhoden.

Location characteristics

Accessibility

Proximity to regional and international airports makes business and personal travel faster and easier. Municipalities near metropolitan regions and regional centers have better

access to urban infrastructure and public goods. Accessibility is measured as travel time on private transportation.

The municipalities adjoining Zurich and Geneva are highly accessible. Travel times to Wollerau and to the municipalities on Lake Zug and Lake Lucerne are somewhat longer. Among the mountain municipalities, Crans-Montana, Gstaad and Verbier are relatively well accessible. Zermatt, in contrast, is less accessible.

Shopping / restaurants

A town's attractiveness is partly a function of the depth and diversity of its high-end leisure scene. That includes white-tablecloth restaurants and world-class shopping opportunities. This indicator is measured by the number of Michelin-starred restaurants and luxury boutiques within a half hour's drive by car; the calculation assigns smaller weights to more remote locations.

Zurich and Geneva evidently have the most qualifying restaurants and stores. Their leisure scenes benefit small towns located nearby, too. Among the mountain regions, Oberengadin has by far the best selection of shops and eateries. In Ticino, the municipalities clustered around Lugano tend to tap into its high-end leisure segment.

Luxury proportion

- 1 Cologne
- 2 Bagnes
- 3 St. Moritz
- 4 Pontresina
- 5 Kilchberg



Tax burden

- 1 Zug & Wollerau
- 3 Meggen
- 4 St. Moritz
- 5 Kilchberg



Accessibility

- 1 Genève
- 2 Zürich
- 3 Chêne-Bougeries
- 4 Vandœuvres
- 5 Cologne



Shopping / restaurants

- 1 Zürich
- 2 Genève
- 3 Chêne-Bougeries
- 4 Vandœuvres
- 5 Cologne



Luxury locations in Switzerland

By region and price, 95th quantile of advertised prices, 2017-2020

Region	Rank 2020, by region	Luxury location	Market characteristics		Cost environment		Location characteristics	
			Price range**, in 1,000 CHF/m ²	Luxury proportion	Tax burden	Lump-sum taxation	Accessibility	Shopping / restaurants
Lake Zurich	1	Rüschlikon	25-35	✖✖	♦♦♦	×	♦♦♦♦	♦♦♦♦
	2	Zollikon	25-31	♦♦♦	♦♦♦	×	♦♦♦♦♦	♦♦♦♦
	3	Kilchberg	25-31	♦♦♦♦	♦♦♦	×	♦♦♦♦♦	♦♦♦♦
	4	Herrliberg	23-36	✖✖	♦♦♦	×	♦♦♦♦	♦♦♦♦
	5	Wollerau (SZ)	22-42	✖✖	♦♦♦♦♦	✓	♦♦♦♦	✖✖
	6	Erlenbach	21-38	✖✖	♦♦♦	×	♦♦♦♦	♦♦♦♦
	7	Zürich	20-55*	✖✖	✖✖	×	♦♦♦♦♦	♦♦♦♦♦
	8	Küsnacht	20-30	✖✖	♦♦♦	×	♦♦♦♦♦	♦♦♦♦
Central Switzerland	1	Zug	21-37	✖✖	♦♦♦♦♦	✓	♦♦♦♦	♦♦♦
	2	Meggen (LU)	18-31	✖	♦♦♦♦♦	✓	♦♦♦♦	✖
Lake Geneva	1	Cologny	35-55*	♦♦♦♦♦	✖✖	✓	♦♦♦♦♦	♦♦♦♦
	2	Collonge-Bellerive	25-55*	♦♦♦	✖✖	✓	♦♦♦♦♦	♦♦♦
	3	Genève	24-55*	♦♦♦	✖	✓	♦♦♦♦♦	♦♦♦♦
	4	Vandœuvre	23-48	✖✖	✖	✓	♦♦♦♦♦	♦♦♦♦
	5	Chêne-Bougeries	23-55*	✖✖	✖	✓	♦♦♦♦♦	♦♦♦♦
Oberengadin	1	St. Moritz	28-55*	♦♦♦♦	♦♦♦♦	✓	✖✖	♦♦♦
	2	Pontresina	24-32	♦♦♦♦	♦♦♦	✓	✖✖	♦♦♦
Bernese & Valais Alps	1	Gstaad (BE)	32-55*	♦♦♦	✖	✓	♦♦♦	✖✖
	2	Verbier (VS)	26-55*	♦♦♦♦	✖✖	✓	♦♦♦	✖
	3	Zermatt (VS)	21-33	✖✖	✖✖	✓	✖	✖✖
	4	Crans-Montana (VS)	18-41	✖	✖✖	✓	♦♦♦	✖✖
Ticino	1	Morcote	20-29	✖	✖✖	✓	♦♦♦♦	✖✖
	2	Paradiso	19-37	✖	♦♦♦	✓	♦♦♦♦♦	✖✖
	3	Ascona	19-36	✖	✖✖	✓	♦♦♦♦	✖✖
	4	Collina d'Oro	16-55*	✖	♦♦♦	✓	♦♦♦♦	✖✖

♦♦♦♦♦ Well above average ♦♦♦♦ Above average ♦♦♦ Average ✖✖ Below average ✖ Well below average

* No top limit to prices
 ** Price range: 95th quantile to top asking price, average 2017-2020

Source: UBS

List of sources

Variable	Sources
Real estate prices (current and past)	Fahrländer Partner Raumentwicklung, UBS
Transactions	UBS
Number of offerings	Comparis, UBS
Share of luxury real estate stock	Fahrländer Partner Raumentwicklung, UBS
Tax burden	Swiss Federal Tax Administration (FTA)
Accessibility with private transport	TransSol, Federal Office of Civil Aviation, UBS
Shopping: luxury brands	Interbrand, websites of the luxury brands
Restaurants	Guide Michelin 2020
Real estate prices in select global destinations	Knight Frank, Zillow, UBS

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